



FOR IMMEDIATE RELEASE
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GOVERNOR RELEASES BALANCED BUDGET PROPOSAL
Plans for FY09, FY10 Protect Important Priorities, Do Not Raise Taxes

PHOENIX – Governor Janet Napolitano has released a balanced budget plan for fiscal years 2009 and 2010 which protects important investments in education, public safety and the social safety net, and does not raise taxes. The release of the plan provides a blueprint for how Arizona can weather the recession without sacrificing important priorities, and also complies with state law, which requires the executive to release a budget the first week the Legislature is in session.

“These are very difficult times, and this budget contained many tough decisions,” Governor Napolitano said. “It contains many cuts, but each of these decisions is better eliminating the resources critical for the education, safety and health of Arizonans. On the whole, this budget uses the right combination of fiscal tools to create the best possible way to solve our short-term deficits without sacrificing long-term priorities for Arizona.”

The budget contains cuts in every area of state government – cuts which are targeted in order to preserve the core functions of government and important investments in the future, as opposed to across-the-board cuts.

“Every area of government experiences some kind of cut. In this budget, everyone makes sacrifices,” Governor Napolitano said. “But these are cuts that make sense, and that preserve the important initiatives – especially in education – that are building Arizona’s future.”

The budget plan closes shortfalls of \$1.2 billion in the current fiscal year (FY 2009) and nearly \$2.7 billion in FY 2010. The current recession, which is deeper than economists predicted, has driven down revenues to unexpectedly low levels, while demand on state services such as health care is increasing during difficult times. The FY 2008 and currently passed FY 2009 budgets contained \$1.8 billion in cuts.

Major components of the budget balancing plan include:

- *Agency operating suspensions* – Hard cuts to state agencies will total nearly \$1 billion. The budget plan contains an extensive list of proposed targeted cuts. The budget contains no specific plans for layoffs, as the hiring freeze Governor Napolitano instituted last year has been effective at shrinking the state workforce.
- *Tobacco settlement securitization* – At least 21 states and counties have securitized their portion of the contractually obligated payment stream from the settlement of tobacco lawsuits. Securitization exchanges the payment stream for an upfront payment. In

Arizona's case, it is projected that tobacco settlement securitization could generate as much as \$900 million in two years.

- *Payment schedule deferrals* – The state will briefly delay payments to AHCCCS, the state Medicaid program; the Department of Economic Security; and the Universities to help balance the budget.
- *Rainy Day Fund* – The Rainy Day fund will use \$120 million of its \$130 million balance.
- *Agency fund transfers* – Fund transfers of more than \$200 million over two years, primarily from the State Highway Fund, will help balance the budget.
- *Federal fiscal relief* – The budget includes a conservative estimate of fiscal relief that will come from the federal government. The federal government aided states during the last steep downturn, particularly in the form of the federal contribution to state Medicaid programs. President-elect Obama and Congressional leaders have stated their intention to provide fiscal relief to the states during the current recession.
- *Revenue adjustments* – Fee increases, increased highway speed enforcement, new resources for revenue generation, and a new fee for private prisons will contribute around \$300 million over two years to balancing the budget.
- *State Lottery securitization* – Rather than selling the Lottery, the budget proposes to securitize the portion of its proceeds going to the General Fund, while holding harmless state agencies and programs that receive Lottery proceeds. The State would maintain control of Lottery operations. Securitization would contribute \$500 million to balancing the FY 2010 budget.

“Many of these measures are not ones that the state would rely on to balance the budget in good times,” Governor Napolitano said. “But each of them represents the best possible option Arizona has in the face of the steep budget difficulties that a bad economy brings.”

The basic budget balancing plans for FY 2009 and FY 2010 are as follows:

FY 2009

Shortfall: \$1.2479 billion

Tobacco settlement securitization	\$400 m
Agency operation suspensions	\$300 m
Payment schedule deferrals	\$216 m
Rainy Day Fund	\$120 m
Agency fund transfers	\$111 m
Federal fiscal relief	\$100 m
Revenue adjustment	\$50 m
House of Reps. excess balance	\$7 m

Total savings \$1.304 b

Net surplus \$56.1 m

FY 2010

Shortfall: \$2.6547 billion

Balance carried forward	\$55.1 m
Tobacco settlement securitization	\$400 m
Agency operating suspensions	\$675.1 m
Interest expense re: payment schedule deferrals	-\$6 m
Lottery securitization	\$500 m
Agency fund transfers	\$119.4 m
Federal fiscal relief	\$675 m
Revenue adjustments	\$258.3 m

Total savings \$2.677 b

Net surplus \$22.2 m

A full copy of the Executive Budget Summary for fiscal years 2009 and 2010 is attached. The full budget can be seen on the Office of Strategic Planning and Budgeting Web site at www.ospb.state.az.us.

For more information about the Office of the Governor, please visit www.azgovernor.gov.